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C O N F I D E N T I A L SECTION 01 OF 02 BUENOS AIRES 002138

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SIPDIS

TREASURY FOR CLAY LOWERY, NANCY LEE, AJEWEL, WBLOCK, LTRAN
NSC FOR JOSE CARDENAS, ROD HUNTER
PASS FED BOARD OF GOVERNORS FOR RANDALL KROSZNER, PATRICE
ROBITAILLE
PASS EXIM BANK FOR MICHELE WILKINS
PASS OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER

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TAGS: [EFIN](#) [ECON](#) [EINV](#) [AR](#)

SUBJECT: ARGENTINE ECONOMY MINISTRY OFFICIALS SEE
POST-ELECTION OPPORTUNITY TO MOVE ON IFI RELATIONS, PARIS
CLUB

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

Summary

11. (C) Economy Minister Peirano told Ambassador he will hold off discussing bilateral or multilateral issues until the dust settles from the October 28 elections. He called his participation in the IMF/World Bank meetings a success, and he expects improved cooperation and coordination with those institutions' new leadership. He greatly appreciated Treasury's acknowledgment of the GoA's support for IMF debt relief for Liberia. Peirano's Chief of Advisors Javier Alvaredo told Econoff that the Econ Ministry was not responsible for local press reports of a "secret U.S. Treasury visit." He predicted that Peirano would stay as Econ Minister in the next administration, expected the GoA to implement gradual policy changes, including slowing spending, raising utility tariffs, and an effort to restore credibility to statistics agency INDEC. He thought a Paris Club accord was possible if the GoA could pay over several years, and thought such a deal would pave the way to negotiations with holdout bondholders. End Summary

Econ Minister Takes Wait and See Attitude Following
Elections; Highlights Positive Results of IMF/World Bank
Meetings

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12. (C) Economy Minister Peirano told Ambassador October 26 he expects it to take weeks after the October 28 presidential election before the new administration will make key discussions on staffing and policy shifts. Therefore, he wants to hold off substantive discussions on high-profile bilateral or multilateral issues (such as Paris Club) until the dust settles.

13. (C) Peirano said his trip to Washington to attend the October 20-22 IMF/World Bank meetings had been a success. He thought there was a good basis for collaborating on key issues with the new leadership of both institutions. He also appreciated the opportunity to participate in the Treasury-organized Finance Ministers' meeting, and appreciated that Treasury Secretary Paulson's singled out Argentina for contributing to clear Liberia's arrears to the IMF.

Paulson Scores Big Points Highlighting GoA Contribution to
Liberia Debt Relief

14. (C) Minister Peirano's Chief of Advisors, Javier Alvaredo, separately told EconOff October 26 that local press coverage of Peirano's trip could not have been better, given the timing. He thought the press provided good coverage of the GoA delegation's leading role in calling for reform of the IMF, which is the kind of news that resonates with the notoriously anti-IMF Argentine public. Also, he thought the positive reporting on the Minister's participation in the Treasury-organized Finance Ministers' meeting was good PR for Argentina and strengthened the Minister's position within the GoA.

15. (C) Alvaredo added that the GoA delegation perceived it as extremely significant that Secretary Paulson acknowledged only Argentina during the Finance Ministers' meeting for its support for Liberia debt relief. He noted that it had been politically difficult for the GoA to make the roughly \$8 million contribution, given the timing only weeks before the election (and with Argentine poverty levels still in the range of 25-30%). Nevertheless, he said the Minister considered it worth it, given that it seemed to be a step towards improving the bilateral relationship. Alvaredo said no quid pro quo was expected, but he thought that it had won the GoA points with the Treasury, which he hoped would work in Argentina's favor down the road as it negotiated complex agreements with Paris Club countries and holdout bondholders.

Article Reports Planned Treasury Visit and Alleges New IMF
Chief Plans to Support GoA in Paris Club Talks

16. (C) Alvaredo said he suspected that Argentine Central Bank

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(BCRA) President Martin Redrado had been the source for the October 26 article by journalist Marcelo Bonelli in the largest circulation daily Clarin, alleging that Treasury was planning a secret mission to Argentina following the elections to learn about the new administration's plans and improve the bilateral relationship. The article also repeats the source's quotations of new IMF Managing Director Dominique Strauss Kahn. Strauss-Kahn is alleged to have said, "After I take over the Fund...I will personally speak to Paris Club authorities to sound out a solution to the problem."

17. (C) Alvaredo noted that Bonelli is influential and has access to the highest levels (Bonelli writes a column every Friday, possibly the most widely read of any economy-oriented news item in Argentina). He knew that Redrado, like many others, passed information to Bonelli as a form of self-preservation. Otherwise, Bonelli would make up information in order to take him (Redrado) down. Alvaredo was unaware of any discussions of a Treasury visit during the GoA's visit to Washington, but confirmed Strauss-Kahn's comments. He said he was present at the meeting in Washington between Strauss-Kahn, Redrado, and Peirano when Strauss-Kahn committed to assisting the GoA in its negotiations with the Paris Club.

Post-Election Staff and Policy Shifts

18. (C) Alvaredo thought it likely that President Cristina Kirchner would keep Peirano as Minister of Economy, and he thought the rumored split of the Economy Ministry into separate treasury and production ministries would not take place. He predicted that current President Nestor Kirchner would continue to play a significant role on economic issues, given Cristina's relative lack of experience in the subject. Alvaredo thought that the Kirchners wanted someone they could trust and control as Economy Minister, and that would not necessarily be the case with other rumored candidates (such as ex-BCRA President Mario Blejer or even current BCRA President Redrado). Meanwhile, Peirano had proven himself

Careful, trustworthy and reasonably competent since he took over on July 17. Alvarado said he would likely take over as Finance Secretary if Peirano kept his current job, and would also continue lead on Paris Club negotiations.

¶9. (C) Alvarado thought it certain that President Nestor Kirchner would begin gradual economic reforms in the six week transition period following the elections, and that a Cristina administration would continue the process. While he did not expect radical reforms, he thought they would be enough to gain control of inflation without sacrificing relatively high growth. He expected the GoA to cut the growth rate of spending to below the rate of revenue growth. This, he said, implied cuts to energy and transport subsidies, and also implied allowing utility tariffs to increase.

¶10. (C) Alvarado also expected the GoA to take steps to restore the credibility of the statistical agency, INDEC. However, he thought it politically unrealistic to expect the GoA to overhaul INDEC completely with inflation running at about 20%. Making INDEC a fully independent agency would result in official inflation numbers doubling overnight, and Alvarado thought there was no way the administration would tolerate that.

¶11. (C) Alvarado said the GoA was also interested in resuming serious negotiations with Paris Club members over its roughly \$6.5 billion debt (with approx. \$4 billion arrears). He confirmed Peirano's recent statements to the press that the GoA would never pay with official reserves. He also said there was no way the GoA could justify to the Argentine public a decision to pay arrears in one shot. However, he thought there was flexibility in the GoA if Paris Club members were willing to discuss payment over three years. Also, he predicted that an agreement with the Paris Club would open the doors to negotiating with holdout bondholders.

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